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The Nevada Economy: Why the Ups and Downs?

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Nevada's economic upswing and subsequent tumble in the past decade is mostly the result of its small and highly concentrated economic base. A region's economic base is determined by which of its sectors export goods or services to other parts of the country. Tourism is a little different in that the industry brings its customers into a region to provide them with services.

Table 1. Nevada and Las Vegas Location Quotients (2012)

Industry	Location Quotients: Nevada	Location Quotients: Las Vegas
Natural Resources and Mining	0.89	0.03
Mining, Except Oil and Gas	5.83	0.17
Construction	1.20	1.23
Manufacturing	0.37	0.26
Trade, Transportation and Utilities	0.95	0.91
Air Transportation	1.48	1.85
Transit and Ground Transportation	3.51	4.48
Scenic and Sightseeing Transportation	4.37	5.72
Support Activities for Transportation	1.08	1.06
Information	0.51	0.51
Financial Activities	0.78	0.81
Real Estate, Rental and Leasing	1.46	1.47
Professional and Business Services	0.90	0.90
Education and Health Services	0.59	0.56
Management of Companies and Enterprises	1.05	1.12
Leisure and Hospitality	2.63	2.94
Other Services	0.69	0.67

Source: U.S. Bureau of Labor Statistics

Economists typically measure the sectors forming a region's economic base by using location quotients. A location quotient provides information about whether the region has more or less of a particular industry than is the national average.[1] With the idea that

[1] A location quotient for a given industry in a region is calculated as $L_{i,j} = (E_{i,j}/E_j)/(E_{i,US}/E_{US})$ where $E_{i,j}$ represents employment in industry i in region j, E_j is total employment in region j, and US refers to U.S. employment.

people across the country generally consume similar items, industries that are present in a region above the national average are expected to export to the rest of the country. These industries have a location quotient greater than one and form the region's economic base.

Table 1 contains location quotients for both Nevada and Las Vegas. As shown in the table, Nevada and Las Vegas count on relatively few industries to form the economic base. We see leisure and hospitality and aspects of transportation, construction and real estate, management of companies and enterprises, and mining except oil and gas

Leisure and Hospitality

The industry that most stands out in Nevada and Las Vegas is leisure and hospitality. Four aspects of the transportation industry—air transportation, transit and ground transportation, scenic and sightseeing transportation, and support activities for transportation—also stand out as a result of tourism.

Construction and Real Estate

After tourism-related activities, next come real estate and construction. In 2006, the construction industry also stood out with location quotients of 1.88 and 1.96 in Nevada and Clark County, respectively. Now, both location quotients are closer to one.

What is striking about location quotients greater than one for construction and real estate is that construction cannot be exported. Construction is usually the result of economic growth rather than the driver. High location quotients in construction and real estate result from building fueled by strong population growth. High location quotients for construction can only be sustained when the population is growing at a relatively rapid pace.

Over the past 50 years, the United States has seen a general trend of the population moving to the West (Chart 1). As the U.S. economy regains its footing, the resumption of that trend should lead to increased population growth in Nevada and benefit Southern Nevada construction—particularly as growth is expected to slow in California.

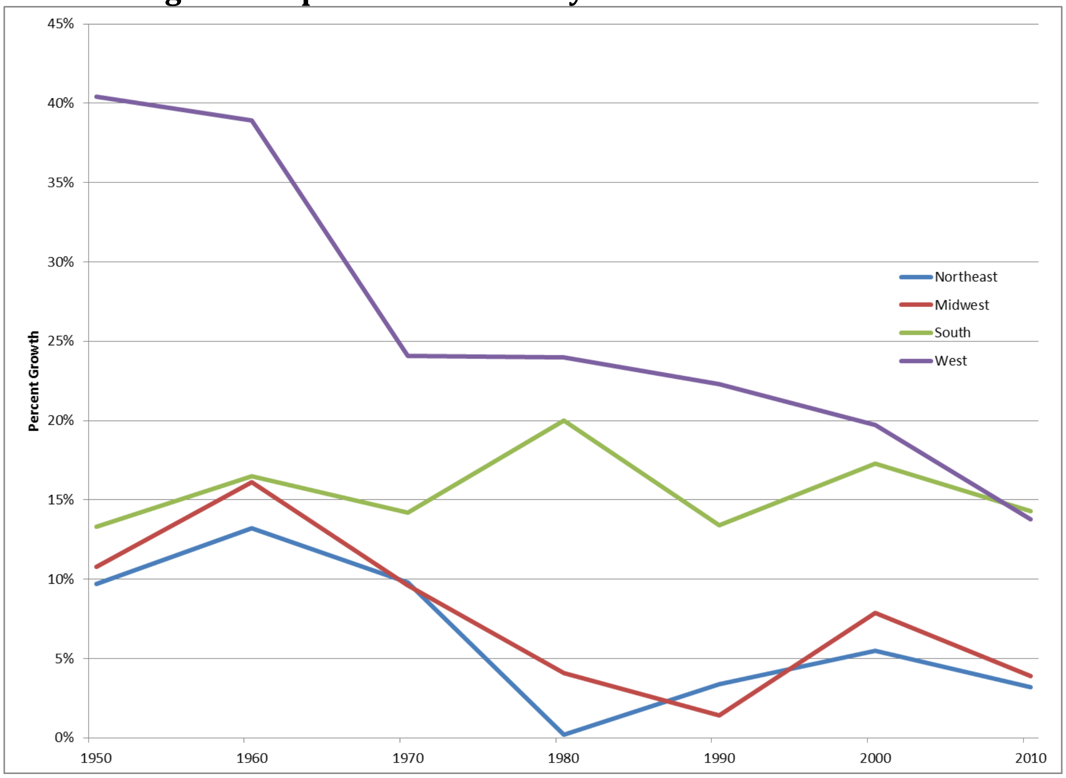
Management of Companies and Enterprises

Another sector that stands out is management of companies and enterprises. This sector captures corporate headquarters—that is, the brains of interstate and international operations. Employment in this sector includes headquarters for the gaming industry, energy companies, bank-holding companies, and non-bank holding companies. Many of these holding companies are relatively small—with only 5-9 employees—but combined these firms account for about 15,000 employees in Las Vegas.

Mining

Because Las Vegas dominates Nevada's total employment statistics, the two regions share almost all the same significant location quotients. The only sector to have a location quotient greater than one for Nevada and not Las Vegas is mining (except oil and gas). This activity takes place in Northern Nevada.

Chart 1: Regional Population Growth by Decade



Source: U.S. Census

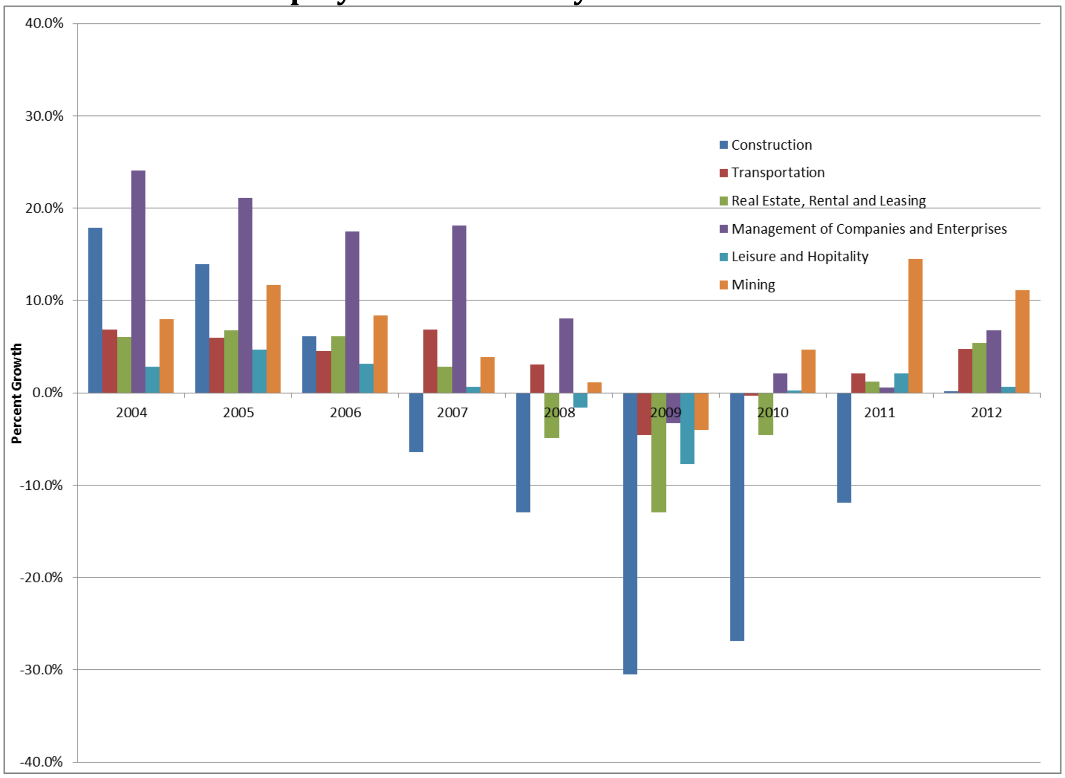
Where the Growth Is

Chart 2 shows annual employment growth for each sector that has a location quotient greater than one. Management of companies and enterprises along with mining were the first two sectors to post significant growth after the recession. In 2012, four of the six sectors with a location quotient greater than one posted growth upward of 4 percent. Construction was hit hardest during the downfall, and has been the slowest to recover.

Diversifying the Nevada Economy

A broader economic base would serve Nevada well in a couple ways. First, a broader base would help Nevada's economy prosper in the future. Secondly, and perhaps more importantly, a less concentrated base would lessen the effects of recessions on the region. Reliance on a few industries leaves a regional economy susceptible to large ups and downs. Nevada's dependence on construction and real estate is one of the main reasons that it has the highest state unemployment rate in the nation, currently at a seasonally adjusted rate of 9.6 percent.

Chart 2: Nevada Employment Growth by Sector



Source: Bureau of Labor Statistics

Within the context of location quotients, economic diversification is boosting the presence of industries that currently have location quotients below one so that they can contribute to the economic base. As a necessary consequence, the location quotients for other industries must decline.

Prior to 2007, the rapid growth of construction and of the tourism, gaming, and hospitality industry crowded out potential growth in other sectors and reduced the diversification of the Southern Nevada economy. The current economic weakness provides an opportunity for future diversification by freeing up resources for use in other sectors.

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